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TO: Deputy Director (Intelligence)  
SUBJECT: Weekly Summary of Trieste Developments

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A week of negotiation with the Yugoslavs brought no change in their position on a territorial agreement, so this basic point remains the obstacle to an overall settlement. In order to strengthen the request for a concession from Belgrade on this point, Undersecretary of State Smith talked with Yugoslav Ambassador Mates on 29 July, and Foreign Secretary Eden was to do the same with Yugoslav ambassador Velebit in London. At the same time, British delegate Harrison and American delegate Thompson in London were scheduled to reopen talks with Italian ambassador Brosio to press Rome on the territorial issue.

Despite these attempts to carry on simultaneous negotiations, the first since December 1953, it is extremely doubtful that a settlement will be reached in time to present it to the Italian parliament before the summer recess on 6 August.

By 23 July, Velebit had come personally to agree with Thompson and Harrison that a territorial concession should be made. He apparently accepted Thompson's proposal, whereby the difference between the Italian and Yugoslav territorial positions on the western end of the demarcation line would be split roughly between the two. Subsequently, Velebit said that he had tried unsuccessfully to convince his government to accept such a solution; and it was he who suggested that approaches be made by Eden and Smith. Velebit reported his government's position as being that it had made a series of concessions and could go no further. Mates repeated this view to General Smith, stating that Belgrade feared that each concession of this sort seemed to invite requests for additional ones later, and General Smith tried to reassure him that the territorial compromise was the last one needed.

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In the hope of getting a Yugoslav concession on territory, Western negotiators have pressed upon Velebit and Mates the fact that Italy might be willing to raise its agreed figure of \$10,000,000 as a lump-sum financial settlement to a figure of about \$25,000,000 if the Yugoslav territorial demands were reduced. However, it is possible that Belgrade figures that it can get not only that sum, but possibly some other concessions as well, before it relents on the territorial issue.

The only other possibly serious obstacle to a settlement is Belgrade's continuing refusal to reinstitute a fisheries agreement that would allow Italian fishermen to operate in Yugoslav territorial waters. The Italians have strongly insisted that such an agreement must be an integral part of an overall financial settlement. A fisheries agreement would increase Italy's payments to Yugoslavia by about \$3,000,000 over a three year period. Although the Yugoslav waters are the best fishing region in the Adriatic, this year the Yugoslav press has reported very poor conditions on the fishing grounds, a situation which might partly explain the refusal to license the Italians to fish there.

Some progress was actually registered on the minor points this week, as the Yugoslavs sufficiently modified their position on such issues as minorities, freedom for border traffic, optants (ethnics opting to go to their own country's territory), cultural houses, and credit institutions to facilitate agreement with the Italians after solution of the main problem of territorial modification, and its related issue of a financial settlement.

On the assumption that the Yugoslavs may remain adamant on the territorial issue, Thompson and Harrison decided to return to Brosio on 29 July. Thompson thinks there is some possibility that the Italians might be willing to come up with a new territorial compromise that could be accepted in Belgrade. Rome will not be told that the Yugoslavs are still being pressed on the issue.

Beyond the long-standing obvious reasons, the immediate incentive to press the negotiations results from a slim hope that it might be possible to reach an agreement in time to present it to the Italian Parliament before its summer recess which starts 6 August. Several top Italian foreign ministry

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officials have told the American embassy that they would strongly like to see this happen. Otherwise, they are afraid that some of the "less favorable aspects will rise to the surface" during the summer vacation, making future debate on it, as well as on EDC, more difficult.

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